The Evolution of Turkish Air Transport Industry: Significant Developments and the Impacts of 1983 Liberalization

Yrd. Doç. Dr. Ender GEREDE
Anadolu Üniversitesi, Sivil Havacılık Yüksekokulu, ESKİŞEHİR

ABSTRACT

The liberalization in 1983 constitutes a turning point in the development process of Turkish Air Transport Industry. The aim of this study is to evaluate the evolution of Turkish Air Transport Industry after 1983 liberalization from the perspective of liberalization process. To this end, the first part of the study examines the significant developments and changes which have occurred since 1983. The second part covers the impacts of 1983 liberalization on both Turkish Air Transport Industry and Airline Management. The final part is an overview of failures in 1983 liberalization.

Key Words: *Civil Aviation Management; Turkish Air Transport Industry; 1983 Liberalization's Impacts; Airline Management.*

JEL Classification: *L50, L93, M00*

Türk Havayolu Taşımacılığı Sektörünün Gelişimi: Önemli Gelişmeler ve 1983 Liberalleşmesinin Etkileri

ÖZET

Türk Havayolu Taşımacılığı Sektörünün gelişim sürecindeki en önemli gelişme şüphesiz 1983'te gerçekleşen liberalleşmedir. Bu çalışmanın amacı Türk Havayolu Taşımacılığı Sektörünün 1983 liberalleşmesinden sonraki gelişimini liberalleşme perspektifi içinde incelemek ve değerlendirmektir. Bu amaçla öncelikle 1983'ten bu yana ortaya çıkan değişim ve gelişmeler incelenmiştir. Çalışmanın ikinci bölümünde 1983 Liberalleşmesinin hem Türk Havayolu Taşımacılığı Sektörüne hem de havayolu yönetimine etkileri ortaya konulmaya çalışılmıştır. Son olarak 1983 liberalleşmesinin başarısız olduğu taraflar incelenmiştir.

Anahtar Kelimeler: *Sivil Havacılık Yönetimi; Türk Havayolu Taşımacılığı Sektörü; 1983 Liberalleşmesinin Etkileri; Havayolu Yönetimi.*

JEL Sınıflaması: *L50, L93, M00*

I. INTRODUCTION

Some major structural changes have been taking place in the air transport industry throughout the world recently. There are severe effects of the globalization process. The regulatory framework which forms the air transport industry has been undergoing significant changes both in a global and national scale. Bilateral, regional and multilateral Open Skies agreements have been replacing conventional regulatory system of international markets. In a parallel way, governments deregulate domestic markets. Moreover, state owned airlines, airports and ground handling companies are being privatized. The most important impact of these changes is growing and spreading of severe competition both in a global and national scale (Doganis, 2001 ; Hanlon, 1999 ; Oum, et al., 2000 ; de

Neufville and Odoni, 2003 ; Sinha, 2001 ; Havel, 1997 ; Graham, 1995 ; Forsyth, et al., 2004).

There are some evident reflections of these structural changes to Turkish Air Transport Industry. Although Turkish Air Transport Industry has developed tremendously since 1983 liberalization, it still has some significant problems. Currently these problems have become more important since the accession process of Turkey to EU have begun. Turkish Air Transport Industry has to gain competitive advantages during the accession process. For these reasons, it is an important research topic to examine the evolution of Turkish Air Transport Industry in a liberalization process.

The research done during this study showed that the most important progress in the development process of Turkish Air Transport Industry is the liberalization in 1983. In fact, the current Turkish Air Transport Industry owes its existence to a large extent to this liberalization. For this reason, 1983 liberalization was taken as a reference point in this study, and the significant developments and changes which have occurred since 1983 are revealed and examined from the liberalization perspective. On the other hand, it is crucial to examine the impacts of 1983 Liberalization both on Turkish Air Transport Industry and on airline management. Identifying the gains and failures of this liberalization process will increase the efficiency of Turkey's accession negotiations with the EU.

To collect qualitative data, semi structured interviews were conducted with the specialists from Directorate General of Civil Aviation (DGCA), Turkish Private Aviation Enterprises Association (TPAEA), Turkish Airlines (THY) and other private airlines and civil aviation companies.

The research carried out during this study demonstrates that the data on airline industry are not kept systematically and scientifically in Turkey. For instance, although it is the legal responsibility of the DGCA to collect and keep data on air transport, it is observed that this institution has not been fulfilling this responsibility effectively. That is why it was a quite difficult process to gather the required retrospective data. On the other hand, the mere source of data obtained from the Turkish Statistical Institute was Turkish Airlines. Despite the abovementioned limitations, this study uses and makes descriptive analysis of the data collected from State Airport Authority, Turkish Statistical Institute, THY and TPAEA.

II. SIGNIFICANT DEVELOPMENTS IN TURKISH AIR TRANSPORT INDUSTRY

A. Prior to 1983 Liberalization

Civil aviation activities in Turkey have been parallel to the developments in the world. With the advent of the Republic, greater importance was given to aviation (General Directorate of State Airports, 2004:10). The first significant step of the Turkish Republic in civil aviation was the foundation of Turkish Aeroplane Society on 16 February 1926 (Saldıraner, 1992:33).

The Turkish Aeroplane Society was established to operate in all fields of civil aviation, e.g. design, production, maintenance, training, and air transport. Turkish Aeroplane Society enabled even in those years the rapid development of general aviation in Turkey. Aviation activities went beyond the military scope in all aspects, and were accessible by a greater number of users in a larger area. Thus, the foundations of Turkish Civil Aviation Industry were laid on a firm ground (Ministry of Transport, 1998:23). Turkish Aeronautical Association, the successor of Turkish Aeroplane Society, has still been one of the most significant pillars of Turkish Civil Aviation Industry.

Another important development is the foundation of State Airlines Administration on 20 May 1933, which constitutes the groundwork of Turkish Airlines and Directorate General for State Airport Authority. Its mission was to provide both air transport and the operations of aerodromes. Thus, air transport begun between the principal cities of Turkey (General Directorate of State Airports, 2004:10).

It was observed that design and manufacturing activities developed rapidly between the years 1930 and 1950. Airplanes and gliders were manufactured in various factories founded in Turkey. Thanks to this rapid development, Turkey was the country with the third greatest aviation industry in Europe in the mid-1940s (Saldıraner, 1992:33).

The development of air transport in Turkey in 1950s made it necessary to separate the functions of “air transport” and “operations of aerodromes”. The functions were separated under Law No. 6623 of 21 May, 1955, in accordance with which air transport was entrusted to the Turkish Airlines Inc. Law No. 6686 of 28 February, 1956 had placed the administration of the aerodromes, ground services, air transport, air traffic control and aeronautical communications under the responsibility of the Directorate General of the State Airports, which has its own legal personality and budgetary annex (General Directorate of State Airports, 2006:8). In this way Turkish Airlines was reorganized as a corporation managed and operated under private law. On the other hand, in order to provide ground handling and catering services to airlines, a state owned company, Uçak Servisi Anonim Şirketi (USAŞ), was established under the management of Turkish Airlines in 1958 (Ministry of Transport, 1983:101). The developments in Turkish Civil Aviation Industry ceased in 1950s, and there had been no remarkable developments until 1983 (Saldıraner, 1992:33).

Prior to 1983, despite a few exceptional cases, only public companies were allowed to do business in the civil aviation industry in Turkey. Turkey’s flag carrier, Turkish Airlines, was the unique airline of the country, and it dominated the domestic market. All airports were state owned, and they used to be operated by public companies. As for the ground handling services, one of the two ground handling companies of the country, a state owned company, was controlling the market. There was only one state owned catering company, controlling the whole market.

B. Post 1983 Liberalization

Financed by the Scientific Research Fund of Anadolu University, the preliminary research of this study revealed that the most important development in the history of Turkish civil aviation was the liberalization in 1983. That is why 1983 liberalization is taken as a reference point for this study, and the succeeding developments that emerged within the perspective of liberalization were researched in a more detailed way. There are 16 occurrences that have been of great importance for Turkish Air Transport Industry.

1-Liberalization of market entry, 1983.

After the coup d'état in 1980 responding to the economic and political stagnation of preceding years, the Motherland Political Party won the elections and Turgut Özal became the prime minister in 1983. Özal's reform program included a reduced state role in the economy, and he liberalized Turkey's restrictive economic policies.

Civil aviation industry together with the tourism sector was one of the most important areas under discussion within the liberalization process. In 1983, Civil Aviation Law No. 2920 allowed private companies to do business in civil aviation industry. Subsequently, numerous private air carriers competing with THY and other foreign airlines, supervision and representation companies, MRO organizations and training institutions were set up. As a consequence, Turkish Air Transport Industry with its entire elements started to grow rapidly. Deregulation of market entry is a substantial regulatory reform and the most important milestone on Turkey's civil aviation history.

2-Effort of nationalization and re-regulation in ground handling market, 1984.

Regulations in ground handling market have followed a more irregular progress than other industries. Prior to 1983, there was only one private ground handling company and there was no sound regulatory framework. Prior to 1983 the market was deregulated reasonably; however, in the wake of the Özal Government, ground handling market was re-regulated.

Even though Özal initiated deregulation policies for almost all industries, he issued an ordinance to nationalize the 51% share of the private ground handling companies as a contradictory course of action. On the other hand, a private ground handling company ÇELEBİ raised an objection against this regulation and the court decided in ÇELEBİ's favour. Upon this decision, nationalization policy was given up but another regulation was brought into ground handling market. In this period, the private ground handling companies were not allowed to serve the charter airlines. It is considered that the ultimate objective behind this regulation was to grant more business volume to USAŞ, and later on, to HAVAŞ, the state owned ground handling company (Yeni Şafak, 2006).

It is thought that this policy contradicted with liberalization policies of the State. On one hand, the State promoted liberal competition in the market and exerted efforts to privatize public institutions, and on the other hand, it attempted to prevent private sector from entering the market of charter flights.

3-Privatization of the catering company USAŞ, 1987.

USAŞ was founded by THY (92.6%) in 1958 to provide both ground handling and catering services. USAŞ was included among the public enterprises that would be privatized in the first stage of the Privatization Programme because it was a profitable monopoly. As a result of this policy, all shares of USAŞ were transferred to the Privatization Administration (PA) in 1987. In addition, in view of this policy, the ground handling services carried out by USAŞ were transferred to a new public enterprise, HAVAŞ, which was founded in 1987 and planned to be privatized in the future. Thus, the only activity field of privatized USAŞ would be catering. In February 1989, 70% share of USAŞ was privatized by block sale to SAS Service Partner through an international tender. In October 1993, the remaining shares held by the Privatization Administration were offered to the public (Ministry of Transport, 1983:69-102, 1993:138 ; Özenen, 2003:97 ; Aytar, 1995:46-49).

USAŞ was the first enterprise privatized in air transport industry, following its 31 years of activity. Thus, this development is of importance for the sector. This privatization resulted in the entire withdrawal of the State from catering services in the industry.

4-Inclusion of Turkey's flag carrier THY within the scope of privatization, 1990.

Being one of the fundamental tools of free market economy, privatization has been on Turkey's agenda since 1984. In this perspective, THY first was reclassified as a "State Economic Enterprise" in 1984. The Company was included within the scope of the privatization by the Council of Ministers' Decree No.90/822 dated August 22, 1990, and 1.82% share was privatized through public offering. Turkish Airlines was placed under the jurisdiction of the Privatization Administration in 1994, the state agency responsible for privatization. The Government launched an effort to privatize 51% share of THY through block sale on December 2000. Meanwhile, the Privatization High Council decided to establish golden share in Articles of Association, granting special management and approval rights to the State by its Decree no. 2000/87 of December 8, 2000. Articles of Association, which is still in force, has been amended in compliance with Article 20/a of the aforementioned law of January 17, 2003 including the new scope of golden share. However, this effort was hindered by the global crisis in airline industry and a troubled economy affected by the financial crisis in Turkey in February 2001 (Emir, 2001:195-208 ; Privatization Administration, 2007b). The Privatization Administration controlled 98.2 percent of THY until December 2004.

After 11 years of privatization attempts, only 1.82% of THY was privatized. Although the PA failed to finalize the objectives on THY's privatization, this development is one of the most revolutionist step in the history of Turkish Civil Aviation since air transport has always been regarded as a strategic public service in Turkey. On the other hand, the failure in the privatization of THY caused significant problems (State Planning Organization, 1995a:29) and it was seen as the main obstacle to THY's future growth since Turkish government was exerting heavy-handed control over the airline. However, more professional approaches converted this purely state owned company into a more competitive airline very similar to Air France in 1990s.

5-Privatization of state owned ground handling companies and deregulation of these services, 1991, 1995, 1996.

Upon the decision that USAŞ would be privatized as a catering provider enterprise, a new public enterprise, HAVAŞ, was founded to provide ground handling services (Aytar, 1995:49). Thus, there were two enterprises in the ground handling market, one of which was a private body (ÇELEBİ Air Services).

In the liberalization process, the first and the most important step for ground handling sector was the abolition of the restriction that private ground handling enterprises could not provide service for unscheduled flights. In 1991, with the amendment concerning ground handling services, private ground handling companies also begun to serve for unscheduled flights. It is thought that the reason behind this deregulation was the 40-day strike of state owned companies, HAVAŞ and THY. Due to this strike, the State was in a difficult position, and abolished this regulation that used to hinder the private sector from entering into the market. This liberalization step played an important role in the development of private ground handling companies. However, the most important result of 1983 liberalization was the establishment of Turkish airline companies that offered charter flights and the increase in total demand in Turkish air transport due to the emergence of these companies. As a result of the increase in the number of passengers and air traffic, the demand for ground handling services increased considerably. Another significant liberalization in 1991 was the deregulation of prices. This deregulation resulted in a price-based competition among ground handling companies (State Planning Organization, 1995a:28).

Another significant development in ground handling services from the liberalization perspective is the privatization of HAVAŞ. Sixty percent share of HAVAŞ was privatized in 1995, and the remaining 40% share was privatized in 1998 through block sale. Privatization of HAVAŞ is seen as one of the most successful privatizations in Turkey by the PA. Subsequent to its privatization, there was a noticeable increase in operational revenues, net profits, the number of customers that airlines and aircrafts served for (Privatization Administration, 2007a).

These developments are essential for Turkish Air Transport Industry for the reason that the State has completely withdrawn from ground handling and catering services as a result of these developments. On the other hand, the ground handling market was subject to re-regulation in 1996. The government brought high barriers to entry into the market. This regulation prevented new enterprises from penetrating the market, and the market acquired a duopolistic structure.

6-Higher barriers to entry to the airline market, 1990's.

The SHY–6A (the Regulation on Commercial Air Carriers) of 1984, which regulates entry into and exit from the airline industry, did not bring about any evident provision that impeded entry into the airline market. For instance, there is no regulation concerning the paid in capitals of airline companies or the number of airplanes they should have in their fleet. To the authorities of Directorate-General of Civil Aviation (DGCA), the free entry into the market had detrimental effects on Turkish airline industry. Numerous airlines were founded in the first years, but they went bankrupt in a very short time. That is why the Ministry of Transport changed its policy on entry into the airline market in the early 1990s.

The SHY–6A regulation, which regulates the conditions for entry into the market, was subject to 13 amendments until August 2007. The airline companies were faced with almost no regulation that complicated their entry into the market until 1992. However, significant changes were made in 1992. The authorities of DGCA believe that the aim of the amendment is to ensure that airline companies which enter into the market are stronger in terms of their financial and fleet structure. The following amendments introduced more radical differences compared to the initial situation.

The first regulation introduced in 1984 did not include any arrangement concerning the paid in capitals of airline companies and the number of airplanes that they need to have in their fleet. The amendment in 1992 stipulates that the airplanes with more than 50 seats and airline companies that offer scheduled or unscheduled international flights should have a minimum paid in capital of US $ 1 million per airplane. In addition, the airplanes with more than 50 seats and airline companies that offer scheduled international flights should have at least 5 airplanes in their fleet. The company should hold the ownership of at least 3 of these aiplanes. Airline companies that offer unscheduled flights should have at least 3 airplanes in their fleet, and hold the ownership of at least one of these planes.

Another amendment in 1992 abolished the obligation to hold the ownership of airplanes. Rather, it introduces a new regulation which provides for that airline companies should submit a letter of guarantee if all planes in the fleet are leased. It is thought that this arrangement deregulates the provision in 1992 amendment to a certain extent (Directorate General of Civil Aviation, 1992:97-134 ; Önen, 1986:207-254).

7-Re-regulation of domestic routes, 1996.

In 1983, the domestic market was completely deregulated with Civil Aviation Law No. 2920, except the price tariff issue. According to Law No. 2920, air carriers submit their tariffs to the Ministry of Transport, which would approve or reject the tariff. However, in practice, the Ministry of Transport hardly ended up with the rejection of a tariff.

After the deregulation, Istanbul Airlines was authorized to enter the domestic market for the first time in a relatively big scale in 1987. Afterwards, it started scheduled operations between Istanbul and Trabzon. The second airline in domestic routes was Onur Air.

Starting from the early 1990s, although the current regulations did not impede new entry into the market of domestic routes, bureaucrats of the Minister of Transport were extremely reluctant to authorize private airlines to enter the domestic market.

This policy strengthened following a decision taken by the DGCAto re-regulate the domestic market on January 12, 1996. According to this new regulation, private airlines were obliged to enter the market in which THY did not have any scheduled flights. Furthermore, on condition that they wanted to enter one of the markets in which THY operated, they were allowed to arrange flights on the days that THY did not have any scheduled flights. Provided that a private airline wanted to make a flight on the same day with THY, it would be allowed only in the case that THY was not able to meet the demand. If a private airline wanted to penetrate any of the profitable markets (İstanbul, Ankara, İzmir, Antalya, Dalaman, Adana, and Trabzon), then it would be obliged to operate some thin routes in the southeast regions of Turkey. As a consequence, DGCA established barriers to entry into the market, which were all in favor of THY (Hassu, 2004:60-61 ; İzer, 2002:115).

These implementations were strongly criticized for being against the Civil Aviation Law No. 2920. While the government was trying to liberalize the market and to privatize THY, it impeded private companies to enter the market and to get stronger. According to the former president of TPAEA in those years the main reason behind this policy was the privatization process of THY. THY's managers and the Ministry of Transport thought that free market entry into domestic routes would lower in value of THY.

According to TPAEA, private airlines did not resort to the court since they did not want to come up against the bureaucrats and the Minister of Transport. On the other hand, the bureaucrats of the Minister of Transport defend this policy, believing that it brought social welfare in the country.

8-Financing some airport terminals' renewal and capacity extension projects with Built-Operate-Transfer method, 1990s.

By the end of the 1980s, projections of air transport demand in Turkey proved out that some existing terminal capacities and its facilities would be insufficient in near future, and it was planned to build new terminals. The limited public resources and the need to solve the capacity problems in a short time forced the government to realize these projects in terms of Built–Operate–Transfer (BOT) procedure.

The first BOT project was initiated at Antalya International Passenger Terminal-1 and followed by Istanbul Atatürk Airport International Passenger Terminal project. The third BOT project was realized at Antalya International Passenger Terminal-2 and completed in April 2005. Despite some problems, the government achieved the goals of BOT procedure, and these airport projects were considered the most successful BOT projects in Turkey (Kaya et al., 2005a).

Civil Aviation Industry has always been perceived as one of the most strategic industries in Turkey. Furthermore, because of similar economic characteristics which were put forward by Hooper (Hooper, 2002:290), airports and their privatization are considered important with regard to the public policy in Turkey, too. For this reason, the success of these BOT Projects is a significant step towards the achievement of free market economy in civil aviation industry of Turkey. Particularly, the success of Atatürk Airport project led to a change in negative perceptions regarding the privatization in civil aviation industry. Following this success, the BOT procedure for airport terminals were applied in other major airports, e.g. Ankara Esenboğa Airport (entered into service on 13 November 2006), Dalaman Airport (entered into service on 1 July 2006) in Muğla and Adnan Menderes Airport (entered into service on 9 September 2006) in İzmir.

9-More liberal approaches to bilateral air services agreements, end of 1990s and 2000s.

Turkey has been following a more liberal policy concerning Bilateral Air Services Agreements in recent years. Turkey has updated some of its Agreements and concluded new ones. Updated ASAs have brought more fifth freedom rights, more market access possibilities and capacity liberalization. In this process, Turkey signed an Open Sky Agreement with the US. On the other hand, updated bilateral ASA by MoUs with Germany bears essentially liberal features. Turkey wants to achieve further liberalization particularly at CIS countries' market.

Thanks to this policy, Turkish Airline Industry gains strength against the severe competition in the EU market during the accession process to EU.

10-Membership to Joint Aviation Authorities, 2001.

A further key regulatory development in Turkey appeared in the field of civil aviation safety. Turkey became a full member of the European Joint Aviation Authorities (JAA) on April 4, 2001. Implementation of the Joint Aviation Requirements would promote the efficiency in Turkish Civil Aviation Industry by increasing aviation safety.

11-The right to free determination of prices for domestic flights, 2001.

THY and other private airlines were not allowed to determine their prices for domestic flights freely until 2001 since the Turkish Civil Aviation Law did not bring a deregulation to the price tariffs in 1983. However, the Turkish Civil Aviation Law, as amended on April 26, 2001, gives airlines the right to freely determine their prices for domestic flights.

Thus, the amendment on the act allows price setting based upon commercial considerations in the marketplace. Following this deregulation concerning prices, the domestic market was completely free in legal terms.

12-Re-deregulation of the domestic market, 2003.

Until the liberalization in 1983, the flag carrier of Turkey, THY, acted as the only airline company for both domestic and international flights. The amendment in 1983 allowed the entry of private sector into the market. However, particularly after THY entered the privatization process, private airline companies were confronted with bureaucratic obstacles in their entry to domestic flights market. In addition, the DGCA took a decision in 1996, and made it more difficult for private airline companies to enter into the market. As a result, THY maintained its monopoly in domestic flights until 2003, and thus, domestic flights transport did not make any progress.

Binali Yıldırım, the Minister of Transport in the government of Justice and Development Party, made a radical change on this state policy. In October 2003, he abolished the decision taken in 1996, and hence, allowed competition in domestic flights and removed the barriers that inhibited private airline companies from entering into the market.

This new liberalization in 2003 has another significant particularity as well. The minister of transport not only liberalized the market but also lifted some additional taxes on domestic air transport and reduced airport service charges in airports run by General Directorate of State Airports. Thus, the costs of airlines reduced, and this reduction was noticeable on ticket prices.

Following the liberalization of price tariffs in 2001, the domestic flight market has become completely liberal, which paved the way for significant implications. The most important result of the liberalization in domestic flights has been the considerable increase in the number of passengers carried by domestic flights. Given the total number of arriving and departing passengers in the airports run by General Directorate of State Airports, the number of passengers increased by 191% at the end of 2006 compared to 2003. The most important reason for this increase was the considerable reduction in ticket prices as a result of the strong competition. The increase in the frequency of existing flights was an important factor as well. In addition, the new entrant airlines operated flights to new routes to which THY had never flied. Another indicator of the strengthening competition was that the number of airlines flying in some markets increased to two or three. The liberalization of domestic flights is regarded as the most important development after 1983 liberalization in Turkey.

13-First privatization step for THY, 2004.

The second important step on the way to privatize THY was taken in 2004. In the second half of 2004 another effort was launched for the public offering of THY shares and in effect 23% of the shares were offered to the public in December 2004. Together with the share of 1.82%, which had been offered previously, the company's privatized 24.82% shares were traded at Istanbul Stock Exchange. The Privatization Administration controlled 75.18 percent of THY until May 2006 (Privatization Administration, 2007b).

This privatization step was a profoundly important development for establishing the Executive Board of THY. In accordance with THY's Articles of Association, provided that more than 15 percent of the partnership was offered to public, the shareholders that held public shares were entitled to determine one member of the Executive Board, composed of 7 members in total. Any shareholder holding 2% of THY shares can nominate a candidate for the membership of the Executive Board in the following general assembly meeting. This condition brought a different dimension to the privatization process of THY.

14-The Use of Sabiha Gökçen Airport in Istanbul, 2005.

Almost all airports in Turkey are public owned enterprises, and run by State Airports Authority. However, the state owned Sabiha Gökçen Airport founded in January 2001, the second largest airport of Istanbul, is not run by State Airports Authority.

This airport, whose construction cost US $ 600 million, did not manage to disburden the traffic of Atatürk Airport. Thus, this airport was almost inactive until the end of 2004. Nevertheless, with the re-deregulation of domestic flights, the passenger and aircraft traffic in domestic routes has begun to accelerate rapidly. As a result of this acceleration, slot problems emerged for domestic flights, particularly at Atatürk Airport, and THY commenced domestic flights from Sabiha Gökçen Airport in April 2005.

In this case, some airline companies, including THY, operated their flights from Istanbul at Sabiha Gökçen Airport. Pegasus Airlines, which made a competitive entry into the domestic flights market and has adopted Cost Leadership strategy, uses this airport as its base.

Ground handling and airport service charges are lower at Sabiha Gökçen Airport. This results in a reduction in ticket prices because the costs of airline companies decline. Istanbul is the most important source of domestic flight traffic. Abating the slot problems of domestic flights at Atatürk Airport, Sabiha Gökçen Airport makes a remarkable contribution to the development of domestic flights. Thus, the most important airline market of Turkey, Istanbul, gained a low-cost airport, which is appropriate for cost leadership strategy of airline companies that want to benefit from liberal market conditions following the liberalization in domestic flights.

15-Selling the entire shares of Cyprus Turkish Airlines, 2005.

Cyprus Turkish Airlines (CTA) was established as a limited company in 1974. The founders of the company were Turkish Airlines and the Cash Development Consolidated Fund of the Assembly of the Cyprus Turkish Community. In order to operate international flights, the company was registered as a Turkish limited company at the Istanbul Chamber of Commerce, and CTA received authorization from the Turkish DGCA in 1983 to provide air transport services both on domestic and international markets (Cyprus Turkish Airlines, 2007).

All shares in CTA held by Turkish Airlines were transferred first to a state owned tourism company in December 2000, and then to the Privatization Administration. PA sold its 50 % share of CTA to a company founded by the Turkish Republic of Northern Cyprus in Turkey in September 2005. As a consequence, the Turkish government transferred its entire shares in CTA to the Turkish Republic of Northern Cyprus (Privatization Administration, 2007c).

This development is very important because the Republic of Turkey, which follows extremely protectionist policies about the Turkish Republic of

Northern Cyprus (TRNC), withdrew from the ownership and administration of an airline company, which can be characterized as the flag carrier of the TRNC. In addition, this action can be regarded as an indicator of Republic of Turkey's resolution to privatize airlines.

16-Establishment of a Slot Coordination Centre, 2006.

In Turkey, slot coordination began in 1992, and THY was assigned as the coordinator of this process by the Ministry of Transport. After the deregulation in 2003, due the increased traffic at Atatürk Airport, private airlines competing with THY were confronted with slot problems. Some private airlines claimed that THY impeded entry into Istanbul Atatürk Airport-Ankara market as the coordinator party. Subsequently, the Minister of Transport placed the slot coordination process under the authority of an independent commission established under the chairmanship of the DGCA in February 2006 (Directorate General of Civil Aviation, 2007). The Commission is formed by the representatives of State Airports Authority, THY Slot Coordination Unit, and Turkish Private Aviation Enterprises Association, terminal operators, airlines and ground handling companies.

Establishment of the slot coordination center is a significant development from the perspective of the abolishment of the barriers to entry to the domestic market and THY's monopolistic position at Atatürk Airport.

17-Airport privatizations, 2005-2006.

Successful BOTs laid the groundwork for PPP projects) in civil aviation industry in Turkey (Kaya et al., 2005b). Due to these projects, Turkey has taken a step forward to the privatization of airports.

In Turkey, the first important development concerning airports within the liberalization process is that Fraport AG acquired a 50% share in the Concessionaire Company, Antalya Havalimanı Uluslararası Terminal Işletmeciliği Co., of the first BOT project in 1999. This acquisition brought US $114 million foreign investment and know-how to Turkey. In 2006, the partners of Antalya-1 BOT Concessionaire Company agreed to increase the Fraport interest in the concessionaire company from %50 to %100. A foreign company, Fraport, became the sole owner of Antalya Airport International Terminal Investment and Management Inc. in 2006, taking over the remaining shares (Antalya Airport International Terminal Investment and Management Inc., 2007). As a result of this operation, for the first time, a foreign enterprise has become active in Turkish airports. It is an extremely striking development that an enterprise whose 100% is owned by foreigners runs the airport terminal given that airports are known for their strategic importance.

The most significant step towards the privatization in airports was taken in 2005. The operation of Istanbul Atatürk Airport International Terminal under the BOT Project has been a great success. The terminal's operation ended on 2 July 2005. The government, resolving the capacity and finance problems with the BOT scheme PPP projects, has decided to enter into a management contract at Atatürk Airport. The necessary legal applications were completed in order to give operational rights to the private sector, at both Istanbul and the other BOT terminals, via tenders. By this, the operational rights of all the BOT terminals, whose operation periods expired, were allowed to be transferred to private sector companies (General Directorate of State Airports, 2006:42). On June 10, 2005 TAV (Tepe-Akfen Ventures), the former concessionaire company of BOT arrangement, was awarded 15.5 years concession to operate the entire terminals of Atatürk Airport. TAV offered three billion dollars for the terminals' operations of the most important gateway of Turkey. This was the highest figure for such a privatization project in Turkey at that time.

The application introduced at Atatürk Airport in 2005 was carried out at Antalya-1 Terminal whose period of operation by BOT project was expiring in October 2007. In the tender of 12 April 2007, Fraport, together with the IC Group, won the tender for operating all passenger terminals (One domestic, two international and VIP/CIP terminals) at Antalya Airport. Fraport and IC will pay an aggregate amount of USD 3.2 billion to the State Airports Authority, DHMI. The concession for operating all three terminals runs until the year 2024 (Antalya Airport International Terminal Investment and Management Inc., 2007).

Another important step towards the privatization of airports is a project for the construction of a new international passenger terminal and additional buildings at Sabiha Gökçen Airport owned by the Undersecreteriat for Defense Industries within the framework of BOT scheme. With a record of EUR 1.93-billion bid, a consortium led by Limak İnşaat and its partners in India and Malaysia won the rights to operate Istanbul's second international airport for 20 years (Undersecretariat for Defense Industries, 2007).

Following all these developments, private sector has begun to play a role in the construction and management of the largest Turkish airports which have the highest traffic volume. Long-term leasing agreements were made for Istanbul Atatürk and Antalya Airports. GDSA is gradually handing over the management of Turkey's airports to the private sector.

Economic characteristics of airports attributes them specific importance in terms of public policy (Hooper, 2002), and most privatizations of airports have not meant to be the actual sale of the property. For his reason, the simple definition that privatization is the transfer of property and the facilities to private investors is not sufficient in the case of airports (de Neufville and Odoni, 2003:10). Consequently, it is required to broaden the scope of the definition of airport privatization. With this point of view, it is thought that management contracts of Atatürk and Antalya Airports can be considered as a privatization exercise.

18-Second privatization step for THY, 2006.

The most important step to privatize THY was taken in May 2006, when 25% of PA's shares were sold through public offering. In addition, PA sold approximately 15% of these shares by using its right to additional offering. Thus, an extra 28.75% share of THY were privatized, and the share of the State in THY reduced to 46.43%.

As a result of this sale, shares of THY were traded at Istanbul Stock Exchange as of 25 May 2006, and they fell below their public offering price in a short time. Hereupon, PA purchased shares for 30 days in order to ensure price stability, and used additional sales income for price stability. As a result of these purchases, the share of the State increased from 46.43% to 49.12% (Privatization Administration, 2007b).

Since the state-owned share of THY fell below 50% with this privatization step, THY was no longer a public-owned enterprise in legal terms, and became a joint stock company under the Turkish Commercial Law. This was a very important development in the 16-year privatization process of THY. THY administration gained considerable flexibility, particularly in purchases. Privatization is an important complementary element of liberal market economy. That is why the privatization of THY was an extremely important step for the liberalization of Turkish Air Transport in a period where more liberal policies were adopted in bilateral air transport agreements, domestic flights were privatized and negotiations for membership to the EU started. It is a complementary component of the liberal aviation sector that Istanbul Atatürk and Antalya Airports were privatized, and that the passenger terminals of Ankara Esenboğa, Izmir Adnan Menderes, Dalaman and Bodrum Airports were operated by the private sector within BOT projects.

Another significant impact of this development on the privatization of THY was that the free float of shares exceeded 35%, which meant that the shareholders holding 2% of THY shares were entitled to nominate candidates for two memberships of the Executive Board of THY. These candidates did not have to bear a Turkish citizenship.

Despite all these steps in favor of privatization, certain objectives expected from privatization have not been met. Although the state-owned share of THY decreased below 50% through public offerings, it has been a serious concern that the influence of political authority continues in the administration of THY. It is considered that the political authority still holds the control in THY. The share of control has not been sold to a strategic purchaser yet.

Nevertheless, the implications of developments concerning privatization were observable at the Ordinary General Assembly Meeting held on April 24, 2007. For the first time in the history of THY, two members proposed by the private sector (the foreign investment fund called Franklin Templeton Investment) was elected to each of the Executive Board and the Auditing Board. One of the members elected to the Executive Board on behalf of Franklin Templeton Investment is the former director-general of Turkey's largest GSM operator. The other one is the member of the former Executive Board.

III. THE IMPACTS OF TURKISH AIR TRANSPORT INDUSTRY'S LIBERALIZATION IN 1983

The Özal government, which came to power by election in 1983 following the coup d'état in 1980, made a radical change by liberalizing economic policies of Turkey, and regarded tourism, transport and communication sectors as significant means for sustainable development.

Turkish tourism sector entered into an accelerated growth process after 1983 as a result of the decline in terrorist activities, the stability in the country, the liberal policies and incentives to investments in tourism sector. Özal, being aware that air transport is a means for the development of not only tourism but also other sectors, liberalized the aviation industry. The Civil Aviation Law No. 2920 of 1983 permits private sector to operate in the field of aviation. This liberalization is the most important development in the history of Turkish civil aviation. Thanks to this, general aviation activities, air transport, aircraft maintenance activities, airport and air traffic control activities, ground handling services, catering, and even design and manufacturing activities began to develop rapidly.

A. Impacts on Turkish Airline Industry

One of the first and the most important impacts of 1983 liberalization has been the establishment of numerous new airline companies. Table 1 demonstrates the dates of entry into and exit from the market of the airlines established between 1983 and July 1992. This study covers the airline companies that operated between 1983 and 1992 because the first radical amendment on SHY–6A was made in 1992. SHY–6A regulation was introduced after the liberalization to arrange the conditions for entry into and exit from the market.

Table 1 Market entry and exit of airlines between the years 1983 and 1992

Airline	Market entry year	Operation type	Market exit year	Life time year
Bursa Airlines	1984	Scheduled and Unscheduled Domestic Passenger	1987	3
İstanbul Airlines	1986	Scheduled and Unscheduled Domestic/International Passenger and Cargo	2001	15
Marmara Airlines	1986	Unscheduled International Passenger	1987	2
Sönmez Airlines	1987	Scheduled and Unscheduled Domestic Passenger	1998	11
Boğaziçi Air Transport	1987	Scheduled and Unscheduled Domestic/International Passenger and Cargo	1989	2
Talia Airlines	1987	Unscheduled International Passenger	1988	1
NESU Airlines	1987	Scheduled and Unscheduled Domestic/International Passenger and Cargo	1989	2

Toros Airlines	1988	Unscheduled International Passenger	1989	1
European Tur Airlines	1988	Unscheduled Domestic/International Passenger and Cargo	1994	6
Bodrum Imsık Airlines	1988	Scheduled and Unscheduled Domestic Passenger	1991	3
Birgen Aviation	1989	Unscheduled International Passenger	1996	7
Noble Air	1989	Unscheduled Domestic/International Passenger and Cargo	1991	2
Turkish Air Transport	1989	Scheduled and Unscheduled Domestic/International Passenger and Cargo	1993	4
Sultan Airlines	1989	Unscheduled International Passenger and Cargo	1993	4
Sun Express Airlines	1990	Unscheduled Domestic/International Passenger and Cargo	still operating	
Pegasus Airlines	1990	Unscheduled Domestic/International Passenger and Cargo	still operating	
Green Air Airlines	1990	Unscheduled Domestic/International Passenger and Cargo	1995	5
VIP AIR	1991	Unscheduled International Passenger and Cargo	1992	1
Onur Air	1992	Unscheduled Domestic/International Passenger and Cargo	still operating	
Bosporus Airlines	1992	Unscheduled International Passenger and Cargo	1994	2
Albatros Airlines	1992	Unscheduled International Passenger and Cargo	1996	4
Alfa Air	1992	Unscheduled International Passenger and Cargo	2002	10

Source: General Directorate of Civil Aviation, General Directorate of State Airports statistics yearbook in various years, Turkish Private Aviation Enterprises Association Data, ICAO Digests of Statistics Traffic-Commercial Air Carriers in various years.

The first impacts of liberalization were observable only three years after the liberalization. Table 2 shows the number of airlines that entered into and exited from the market and the total number of airlines by years. In 1984 and 1985, there was only one airline other than THY in the market whereas the number increased to 3 in 1986 and to 5 in 1987. In other words, the private sector began to take part in the air transport industry in 1986 and 1987. It is obvious that the growth of tourism sector increased the demand for air transport. However, in those years, air transport was a very new field of activity for Turkish entrepreneurs. It is believed that the delay results from this factor.

Table 2 Airlines' market entry and exit by years

Year	Entering number	Exits number	Total
1984	1	0	1
1985	0	0	1
1986	2	0	3
1987	4	2	5
1988	3	1	7
1989	4	3	8
1990	3	0	11
1991	1	2	10
1992	4	1	13

Source: General Directorate of Civil Aviation, General Directorate of State Airports statistics yearbook in various years, Turkish Private Aviation Enterprises Association Data, ICAO Digests of Statistics Traffic-Commercial Air Carriers in various years.

As from 1986, 6 airlines were established in the first two years, and a total of 16 airlines were established in five years. The majority of these companies operated in intensive cooperation with the European tour operators, and set charter operations.

Given that there was only one airline other than THY prior to 1983[1], it is a noteworthy development for Turkish Airline Industry that such a high number of airlines entered into the market in a very short period of time, no matter that they acted solely as charter operators. Istanbul Airlines was the most successful of these private airlines until 2000 with a fleet of 20 airplanes and scheduled and unscheduled service to most European cities. Other major private airlines would be Onur Air, and Pegasus (İzer, 2002:115).

The most important consequence of 1983 liberalization was the increase in air traffic in parallel to the growth of the tourism sector. Law no. 2634, enacted in 1982 to develop Turkish tourism sector, provided considerable incentives to

[1]In the early 1980s, only two airline companies, THY and Bursa Airlines, were carrying out air transport in Turkey. Bursa Airlines, founded by the partnership of businessmen of Bursa in 1977 after coping with various bureaucratic obstacles, arranged limited operations, only between Istanbul and Bursa, and went bankrupt before 1983. Following the liberalization, the company was re-founded in 1984 with the same name; but it had to leave the market in 1987.

tourism investments. Pursuant to this Law which identifies tourism areas of Turkey, public lands in these areas were allotted to investors (State Planning Organization, 1995b:16-17). Following this development, the number of foreign visitors increased by 17.95% in Turkey between 1980 and 1982 whereas this rate was 4.3% in the world for the same period (State Planning Organization, 1995b:26).

Table 3 Foreign visitors by years

Years	Foreign visitors arriving Turkey	Yearly percentage of change over prior year[a].	Air transport[b] %
1981	1 158 125		32.3
1982	1 148 363	-0.8	34.9
1983	1 506 557	31.2	37.5
1984	1 855 337	23.2	39.8
1985	2 190 217	18.0	39.4
1986	2 397 282	9.5	40.3
1987	2 906 065	21.2	48.9
1988	4 265 197	46.8	50.3
1989	4 516 077	5.9	52.0
1990	5 397 748	19.5	47.6
1991	5 550 199	2.8	31.5
1992	7 104 065	28.0	42.3
1993	6 525 202	-8.1	54.4

Source: Turkish Statistical Institute tourism statistics yearbook in various years. Change in the number of arrivals of foreign visitors compared to the preceding year. The proportion of air transport mode in foreign visitors arriving in Turkey.

The increase in demand in the tourism sector resulted in an increase in demand for air transport. Thanks to 1983 liberalization, the tourism sector was provided with the air transport services it required to meet the demands. As a result of these two developments, tourism sector grew, and passenger traffic increased rapidly.

Table 3 demonstrates by years the number of foreign visitors arriving in Turkey, the annual rate of change in the number of visitors compared to the preceding year, and the rate of the use of air transport as a mode of transport for coming to Turkey. Table 4 is a breakdown of departing passengers through domestic and international flights by years and the annual rate of change in the number of passengers compared to the preceding year.

As seen in Table 3, the number of foreign visitors using air transport was relatively stable between 1981 and 1983. This rate has made very good progress by increasing to 48.9% in 1987 from 40.3% in 1986. It is noticeable that the number of airlines also increased in those years.

Table 4 The number of domestic and international departing[a] passenger over years

Years	Domestic	Yearly percentage of change over prior year	International	Yearly percentage of change over prior year
1976	1 821 528	31.0	1 255 510	12.1
1977	2 098 498	15.2	1 239 736	-1.3
1978	1 653 177	-21.2	1 281 486	3.4
1979	1 710 081	3.4	1 313 388	2.5
1980	801 669	-53.1	985 128	-25.0
1981	1 291 709	61.1	1 036 344	5.2
1982	1 307 242	1.2	1 062 135	2.5
1983	1 495 024	14.4	1 230 746	15.9
1984	1 622 580	8.5	1 413 963	14.9
1985	1 525 223	-6.0	1 633 038	15.5
1986	1 639 542	7.5	1 839 483	12.6
1987	2 007 259	22.4	2 514 952	36.7
1988	2 143 729	6.8	3 350 125	33.2
1989	2 351 616	9.7	3 679 389	9.8
1990	2 700 190	14.8	4 252 796	15.6
1991	2 014 802	-25.4	3 610 707	-15.1
1992	2 681 650	33.1	5 656 427	56.7
1993	3 671 554	36.9	6 805 959	20.3

Source: General Directorate of State Airports statistics yearbook in various years.
[a]When providing the total number of passengers in its airports, Directorate General of State Airports Authority calculates the number of arriving and departing passengers separately. Due to the lack of a distinction between origin and destination, the total traffic figures of particularly domestic flights can be misleading. That is why only the number of departing passengers is taken into consideration in this table.

Table 4 reveals that the passenger traffic increased considerably pursuant to the liberalization in 1983. While the average annual rate of increase in the departing passengers of international flights was 5.1%[2] between 1976 and 1983, the same average annual rate attained 14.71% between 1984 and 1993. The number of international departing passengers increased by 453% between 1983 and 1993.

Another factor increasing passenger traffic was that the liberalization altered traveling patterns of the ethnic population living in Europe. Until late 1980s, Turkish ethnic population traveled via land through Balkan countries to Turkey. THY, being the flag carrier, was the only carrier providing air transport service to this market until the establishment of the private carriers. Being just two flag carriers in all the markets, both parties were used to restrict the capacity during the bilateral air services negotiations. On the other hand, new entering charter airlines forced Turkish Civil Aviation Authority to liberalize the market in terms of both capacity and price tariffs. An examination of bilateral air services

[2] Because the coup d'etat on 11 September 1980 had significant effects on tourism and air transport sectors, the change in 1980 was not taken into consideration.

negotiations in the charter market of those years shows that the capacity enhanced, and the market became more liberal. As a consequence, charter airlines entering into the market could introduce much more capacity and lower fares than THY. Therefore, air transport became much more attractive than land transport for the Turkish ethnic population in Europe (İzer, 2002:112-113).

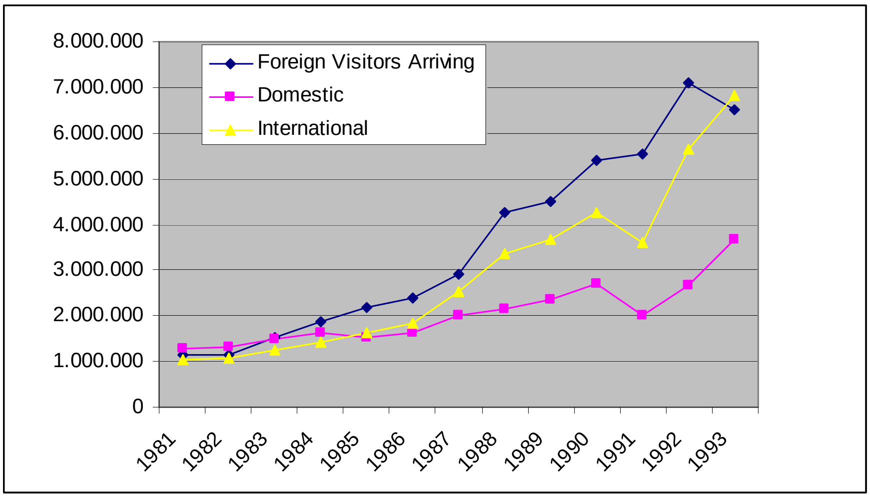

Fig. 1. Change of foreign visitors arriving and domestic and international departing passengers over years.

In view of Table 3, Table 4 and Graph 1, it is seen that the increase in the number of arriving foreign visitors was parallel to the increase in the number of international passenger traffic. The rate of increase for international passenger traffic was quite higher than that for domestic passenger traffic. This demonstrates that the liberalization in 1983 stimulated international air transport demand more intensively.

Another implication of 1983 liberalization was that the market share of Turkish air carriers increased in the market of Turkish international flights. As Table 5 shows, their market share in unscheduled air transport was 18.7% in 1985 whereas this rate increased to 48.2% in 1994. With respect to the number of total passengers, there had been a continuous increasing tendency.

In the unscheduled market, there was not a considerable increase in market share in the first years compared to foreign airlines. In this period, THY was operating unscheduled flights as well. However, these flights were targeted at Turkish people working in Europe. The main reason behind the development of unscheduled flight market was the growth of Turkish tourism industry. Provided that the Turkish private sector had not been allowed to enter into the air transport market in 1983, the whole market could have been dominated by foreign airlines. Nevertheless, the growth of tourism sector enhanced the business capacity of foreign airlines that operated unscheduled flights. From this point of view, it was an important development that the Turkish air carriers were able to receive a share in the market.

Table 5 Market share of Turkish air carriers[a]

Years	Scheduled %	Unscheduled %	Total %
1985	45.6	18.7	38.4
1986	41.8	19.0	35.5
1987	42.2	18.9	34.4
1988	43.9	19.9	34.7
1989	46.3	18.9	35.3
1990	49.2	15.6	36.1
1991	54.1	30.7	44.7
1992	62.4	31.8	48.8
1993	54.3	44.9	48.9
1994	53.6	48.2	50.4

Source: General Directorate of State Airports statistics yearbook in various years. [a]Departing and arriving passengers

In addition, initially, Turkish workers in Europe constituted the customer portfolio of the Turkish air carriers operating unscheduled flights. New entering airlines regimented these workers, and began to carry ethnic traffic to Turkey. That is why it is not surprising that Turkish air carriers were not able to take a considerable share from the charter market in their first years.

Nevertheless, private Turkish air carriers managed to do business in Europe or transferred their business to Europe and took advantage of airline transport as a component of their tourism business since the main activity field of the owners of these carriers was tourism. These entrepreneurs, owners of an airline company at the same time, had to compete with established tour operators in Europe and airline companies in the leisure market, and increased the number of tourist coming to Turkey by air, launching their own market. As they institutionalized, new entering Turkish air carriers found new customers in the tourism sector and increased their market share in international passenger market.

Besides, there was an increase in the number of airlines that operated flights between European country and city pair markets, particularly in which ethnic population lived. From this perspective, another significant consequence of 1983 liberalization was the increase of competition in the market of unscheduled flights.

Another consequence of 1983 liberalization was the strengthening of competition in the market of international charters and market of ethnic traffic between new entering Turkish air carriers and THY. As seen in Table 6, the share of private air carriers within the total number of passengers carried by international flights tended to increase continuously. However, THY held a considerable dominance over private air carriers with respect to the number of passengers carried in domestic passenger market. As mentioned before, 1983 liberalization resulted in the development of Turkish air carriers in international flights, and did not have a similar impact on domestic flights.

Table 6 The rate of passengers carried by Turkish private air carriers[a]

Years	International %	Domestic %
1988	23.3	6.6
1989	29.6	4.1
1990	34.9	6.8
1991	52.6	13.4
1992	55.9	17.1
1993	57.4	11.7
1994	55.7	6.7

Source: General Directorate of State Airports statistics yearbook in various years. [a]The rate of passengers carried by Turkish private air carriers versus state owned air carriers in international and domestic routes.

Another result of 1983 liberalization was the designation of first private airline companies for international flights, other than the Turkish flag carrier, THY. The first designated air carrier was Istanbul Airlines, which was followed by Onur Air. In addition, public-owned Cyprus Turkish Airlines was designated in the UK-Turkey market. Istanbul Airlines and Onur Air normally operated in charter and leisure market. However, they attempted to arrange scheduled flights to the European markets in which Turkish ethnical population was intense, but abandoned these operations later on.

In the domestic market, there had been such niche carriers as Bursa Airlines and Sönmez Airlines that operated scheduled flights between Bursa and Istanbul; however, the activity scale and scope of these airlines were extremely limited. Istanbul Airlines operated scheduled flights in the more important domestic markets of Turkey, e.g. Istanbul and Ankara, Istanbul and Trabzon, yet it had great difficulty in entering into the market although there were no problem from the point of regulations.

B. Impacts on Airline Management

An analysis of strategic management practices of private airlines that entered into the market with 1983 liberalization shows that these airlines were in a strategic alliance with tourism enterprises. Hanlon defines this cooperation as a "vertical alliance" (Hanlon, 1999:240-241). From another perspective, it is observed that the entrepreneurs, who established private airlines in the charter market following the liberalization of the market, were the owners of tourism enterprises. Tourism enterprises established their own airlines to offer integrated tourism products. The growth of tourism industry following 1983 liberalization played a considerable role in the selection of this strategy. In that period, tourism activities had a remarkable effect on the increasing demand for air transport in the Turkish market.

As explained above, this management strategy brought about considerable benefits on the way to enhance tourism sector, take advantage of the growing tourism sector and increase the demand for air transport and the share of Turkish air carriers in the market. However, this strategy resulted in efficiency problems in the management because enterprises whose core competence was not air transport were engaged in this business. Today, many air carriers such as British Airways focus on their core competence when seeking for more efficiency (Doganis, 2001:214).

Prior to 1983, the private sector was not allowed to act in the market of air transport. That is why air transport operations were very restricted in Turkey in terms of both airline industry and general aviation, except for general aviation activities for agricultural pesticide applications. Thus, air transport was not a well-known field of activity in Turkey. Besides, the only air carrier of Turkey, the flag carrier THY, was under the control of the State. Because of the strong influence of political authorities, the middle and top managers of this institution were changing frequently. As a consequence, it was not possible to train operational personnel as well as middle and top managers qualified enough to manage airlines in Turkey.

Airline industry is an extremely dynamic sector which bears international characteristics and requires flexibility (Hanlon, 1999). One of the most important impacts of 1983 liberalization was the entry of private sector into the unfamiliar sector of air transport. It was a significant opportunity to take advantage of managerial flexibility and dynamism of the private sector in air transport. This is one of the facts of privatization applications in Turkey. In this way private air carriers began to create management and organizational cultures which were different from public administration approaches.

The private air carriers that entered into the market following 1983 liberalization had great difficulties in finding and training well-qualified operational personnel and middle and top managers (State Planning Organization, 1991:IV.2). Being aware that it is not possible to achieve a completely satisfactory result in the short term with respect to the employment of high-quality personnel, they had to train themselves the required personnel. Therefore, well-qualified personnel and managers began to take part in the Turkish airline industry.

THY, following in those years the strategy defined by Doganis as “traditional airline model” (Doganis, 2001:213-218), carried out indirect business which were not related to air transport within the company itself. Istanbul Airlines, which entered into the market following 1983 liberalization and was the most successful airline in that period, made its beginning as a charter type company which was in vertical cooperation with tourism enterprises, and then transformed into an airline which follows “traditional airline model” like THY with its domestic and international scheduled flights. Accordingly, Istanbul Airlines began to establish a network of international ticket sale, entered into the catering market, and then, made significant investments to penetrate the ground handling market. Other private air carriers were active in the charter passenger market, and adopted the strategy of vertical cooperation with tourism enterprises.

C. Failures in the Liberalization of Air Transport

In 1980s, whilst Turkey and the world were enjoying economic expansion, growing disposable income and Turkish state investment in tourism industry generated exceptionally good conditions for the growth of the Turkish Air Transport Industry. Under these circumstances, if it had not been for the liberalization in 1983, this opportunity would have been missed and this important growth acceleration would not have been achieved. Owing to liberalization, the sector developed rapidly and considerably. Nevertheless, the sector was also confronted with numerous impairments during and following the liberalization process and not able to achieve a sustainable growth. The main reason for these impairments was that the state institutions, holding the administrative function, were far behind this rapid growth. The growth occurred unsystematically, and Civil Aviation Authority failed to manage the system effectively (State Planning Organization, 1990:103, 1991: IV.8, 1995a:24).

Owing to liberalization, numerous private airlines were launched in a very short period of time, and the demand for airport transport and the share of Turkish air carriers in the market increased; however, the lifetime of the airline companies established in the first years were quite short. As seen in Table 7, of 22 airline companies established between 1984 and 1992, only 3 companies have been continuing their activity by August 2007. The average lifetime of 19 airline companies that went bankrupt was 4.4 years. Of these companies, 8 companies had to leave the market in the first 2 years following their entry and 6 companies in their first 5 years. These airlines, which had to exit from the market and went bankrupt, did great harm to Turkish air transport and tourism sector (State Planning Organization, 1995a). The State did not establish the control system required for the viability of those early private airlines that left the industry with considerable deficit and damage behind them.

Table 7 Life times of new entering private air carriers

Airline lifetime (year)	1	2	3	4	5	6	7	>=10	**Continuing airlines**
Airline numbers	3	5	2	3	1	1	1	3	**3**

Source: General Directorate of Civil Aviation, General Directorate of State Airports statistics yearbook in various years, Turkish Private Aviation Enterprises Association Data, ICAO Digests of Statistics Traffic-Commercial Air Carriers in various years.

The research that Special Expertise Commission conducted to draw up 5-year development plans focused intensively on the reasons behind the failure of private air carriers established in 1983. According to the research in 1989, the reasons for failure are as follows (State Planning Organization, 1990:103-121).

- Management and human resource problems in the Civil Aviation Authority,
- The increase in operation costs due to operational lease arrangements,
- Management problems of airlines,
- The lack of well-qualified personnel,
- The deficiency of working capital,
- The inadequacy of minimum amount of capital required for establishing an airline company in regulations,
- Operations with old airplanes,
- The limited facilities for aircraft maintenance activities in Turkey,
- The seasonal characteristic of the demand for private air carriers because the airline industry is dependent on tourism.

It is thought that the most important reason behind the failure of air carriers established just after the liberalization was efficiency problems in the management. Nearly all private airlines employed their staff from THY or tourism agencies which set up these airlines or from earlier charter companies. As a consequence, the handicap that Turkish Airlines suffers is transmitted to private companies. As an excellent school for technical and operational staff, THY did not have and could not form strategic commercial staff to design and manage an airline. For instance, airline companies suffered from excess capacity in winter months because airline managers were not able to develop strategies against seasonal fluctuations of the market they addressed. The seasonality of the market caused considerable difficulties for the private airlines (İzer, 2002:114).

On the other hand, the predecessors of most private airlines can be considered as tourism companies, and most of them had their own tour operator and/or sales channel that can attract only one type of passenger: organized tourist groups and Turkish immigrants living abroad. None of them, except Istanbul Airlines, truly tried to develop a brand name or image. None of them were a member of IATA, none of them figured on any computerized reservation system and the sales were made by their associated agents (İzer, 2002:114). However, the sales channels were more than dominant and the competition was based only on the price. With these market conditions, private airlines found themselves in a market where the ticket prices were lower than the cost of the seat, and only the companies with an external revenue could compete. Another important problem that private airlines faced with at this time was the lack of an adequate financial structure.

Another factor that had an adverse effect on airlines was the Gulf War that broke out in 1990 and 1991. Influencing the whole world, this crisis had direct impacts on tourism and air transport in Turkey.

Another impairment that emerged following the liberalization in 1983 was the underdevelopment of domestic flights in Turkey. In the world, generally, domestic flights are liberalized first, through which the domestic market grows. Then the air carriers, which attain success in the domestic market, incite the State to expand to international flights. However, it was the opposite case in Turkey.

Domestic flights had been liberalized first; yet, with new strict regulations, the domestic market was closed to competition. Suffering from seasonal fluctuations and from being dependent on the international air transport demand mostly created by tourism industry, air carriers urged the real liberalization of the domestic flight market in 2003.

It is considered that the following are the factors that played a role in the underdevelopment of domestic market following 1983 liberalization:

- The low level of income in Turkey,
- Strict regulations in practice, particularly due to the privatization of THY, although entry into the market was free in legal terms,
- The barriers imposed by bureaucrats to the entry of private airlines into the market of profitable city pairs,
- And hence, the lack of a competitive environment,
- The high price of tickets,
- Extra taxes imposed by the State since the State regards air transport as a luxurious mode of transport,
- The lack of fleet planning appropriate for short-distance flights.

IV. CONCLUSIONS

Air carriers are the enterprises that have to act in an unsteady and complex market. That is why flexibility is an important requirement for airlines. It is not easy to conclude that public owned enterprises in Turkey are able to assure flexibility, take quick decisions, and ensure efficiency in their administration. It is a considerable handicap for Turkey that private airlines did not act in the airline industry prior to 1983. That is why the most important consequence of 1983 liberalization was the entry of private airlines into air transport industry. Despite all flaws and impairments, the Turkish airline industry achieved its current situation in a period of 20 years owing to this liberalization.

The other significant results of 1983 liberalization are as follows:

- Numerous airlines entered into the market in a very short period of time.
- These airlines nourished the tourism sector, which grew rapidly and increased the demand for air transport.
- The passenger traffic increased.
- The share of Turkish air carriers increased in the international market.
- The competition between Turkish and foreign air carriers strengthened.

In parallel to all these developments, Turkish civil aviation sector grew as a whole.

In addition, THY gradually lost its unique status: being the single air carrier in Turkey. This situation accelerated THY's efforts to be a more modern airline enterprise. More original management and organization cultures began to emerge outside of THY.

Despite all positive results, Turkish civil aviation industry missed the opportunity of a more remarkable progress because the steps required to complement 1983 liberalization were not taken. Civil Aviation Authority remained behind the developments of 1983 liberalization, disregarding all warnings. Thus, the airline industry failed to achieve a sound and sustainable progress. New entering airlines were able to survive in the market for a very short time, and the companies that had to leave the market did great harm to the industry. The problems of Turkish Civil Aviation Authority continued in the following years (Oktal and Gerede, 2002).

On the other hand, the domestic flights were not able to develop after 1983 liberalization, and there was an increasing demand in the international market emerged due to tourism. As a result, Turkish airline industry had been influenced seriously by macroeconomic developments and terrorism. In the meantime, Turkish air carriers suffered from considerable losses in winter months because the demand for domestic flights was not high enough and the touristic demand was subject to seasonal fluctuations. This hindered the sustainable and sound growth of the industry.

Turkey's EU membership talks began in 2005. Turkish air carriers should be able to compete with their rivals in the EU before Turkey becomes a full member of the Union. To this end, it is required to analyze the positive and adverse effects of 1983 liberalization, and not to reiterate the faults. Furthermore, the developments following 1983 liberalization can shed light on the derogations to be demanded during EU negotiations.

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